Lecture 13

Financial Crises and Review for Midterm

- 2008 Bailout

- Other than AS/AD model

- AS/AD model

- Effects on size of multiplier in AS/AD model

2008 Bailout

- Lehman Brothers went bankrupt

- $700 billion, October 2008

- Goldman Sachs, Citigroup, Morgan Stanley, J.P. Morgan Chase, A.I.G.

- Loans

- Mortgage-backed securities

- What if there had been no bailout?

Other than AS/AD model

- data (GDP, price indices, employment announcements, interest rates, federal government budget, Fed balance sheet)

- discounting, relationship of bond prices and interest rates, determination of stock prices

- term structure of interest rates

- labor market

- Phillips curve

- Wealth effects—financial and housing

- Policy timing issues

- Issues regarding government deficit and debt

Size of Multiplier

- $TAX = tY$

- TR versus G

- Fed rule

- AS curve